

## Case study 2: Mark scheme

Chapter 1: The nature of business activity

Chapter 2: Types of organisation

### UniFuture

Mary Owen and Suyin Li are young mothers. They were forced to give up their jobs when they each had babies and they are finding that they miss their working lives, with the mental stimulation and social contact they had enjoyed. Now that their children are about to start school, they want to start a business in the local area which they can run while their children are at school or when their husbands are at home to look after the children. They know that local families in the area are relatively wealthy and, with competition for university entry currently being fierce, parents are willing to pay high fees in order to give their child any possible advantage. However, increasing numbers of local people are being made redundant as the recession advances. There are political discussions about increasing university fees. Universities are cutting places for local students and are taking more full-fee students from abroad.

Mary was recently left some money when her father died and Suyin had saved some money when she was working. Suyin used to be a financial advisor and Mary has extensive experience of giving university and careers advice. They have heard reports that local students need extra careers and course advice that their schools are unable to offer. After doing a survey among local parents that confirms the need, they decide to set up a tertiary sector consumer advisory service called UniFuture. Parents will be billed for hours spent with their child. Special help with writing applications and personal statements will be billed on a fixed-fee basis.

The two friends have never had a serious argument, and Mary is happy to set up the business as a partnership as it seems to be the simplest option. Suyin feels that setting up a private limited company would be better.

### SL questions: 20 marks, 35 minutes

- 1 Define the term ‘tertiary sector’. (2)
- This sector uses goods from the primary or secondary sectors in order to provide a service, e.g. shops, banks, restaurants.

Apply **Resources table 3a** mark band descriptors.

- 2 Examine **two** arguments in favour of setting up the proposed UniFuture business. (5)
- Market research shows an unfilled market niche.
  - Mary and Suyin have complementary expertise.
  - Hours of work could be adapted to their availability.
  - They have funds to start it.
  - Services businesses need less start-up capital.
  - They could run it from home to begin with, so would have few or no overhead costs.

SL: apply **Resources table 1** mark band descriptors.

- 3** Comment on **two** problems that UniFuture could face as a start-up business. **(6)**
- Reputation is often slow to build, so the business may have high advertising costs until it can build a word-of-mouth clientele.
  - Cash-flow problems: start-up capital is uncertain but may run out before parents start to pay the bills they are sent.
  - Mary and Suyin have complementary expertise but have no personal experience of running a business.
  - Established businesses (in this case, schools) may start to offer the same service, thus making the business obsolete.
  - Any other relevant point.

SL: apply **Resources table 1** mark band descriptors.

- 4** Analyse whether Mary and Suyin should set up as a partnership or as a private limited company. **(7)**

For partnership:

- quick and easy to set up
- no legal costs

Against partnership:

- unlimited liability
- unincorporated

For private limited company:

- limited liability
- incorporated
- access to funds by selling shares, e.g. to family or friends
- banks may be more likely to lend

Against private limited company:

- incurs legal costs to set up and takes a little longer

Any other valid points will be accepted.

SL: apply **Resources table 1** mark band descriptors.

A justified conclusion is required.

**HL questions: 25 marks, 45 minutes**

- 1      **a**      Identify **two** characteristics of entrepreneurs such as Mary and Suyin. (2)
- vision
  - energy and drive
  - hard-working
  - risk-takers
  - talented and/or experienced
  - any other relevant factor
- b**      Define the term ‘partnership’. (2)
- This is an unincorporated, unlimited liability business, sometimes with a formal ‘Deed of Partnership’. Profits are usually split equally between partners.

Apply **Resources table 3a** mark band descriptors.

- 2      Examine why the proposed business idea may be a good one in view of the personal restrictions, advantages and talents of Mary and Suyin. (6)
- Market research shows an unfilled market niche.
  - Mary and Suyin have complementary expertise.
  - Hours of work could be adapted to their availability.
  - They have funds to start it.
  - Services businesses need less start-up capital.
  - They could run it from home to begin with, so would have few or no overhead costs.

**HL:** apply **Resources table 2** mark band descriptors.

- 3      Analyse whether Mary and Suyin should set up as a partnership or as a private limited company. (6)
- For partnership:
- quick and easy to set up
  - no legal costs
- Against partnership:
- unlimited liability
  - unincorporated
- For private limited company:
- limited liability
  - incorporated
  - access to funds by selling shares, e.g. to family or friends

- banks may be more likely to lend

Against private limited company:

- incurs legal costs to set up and takes a little longer

Any other valid points will be accepted.

**HL: apply Resources table 2 mark band descriptors.**

A justified conclusion is required.

- 4** Evaluate whether the proposed business idea is likely to be a viable one within the current socio-economic climate. **(9)**

Define the socio-economic climate and refer to the recession mentioned in the case study (falling GDP, unemployment).

For:

- If students cannot find jobs, more may try to go to university.
- This increased competition for university places may in turn increase demand for anything which can give students an advantage.
- Suyin and Mary may be unlikely to get other jobs which fit in with their time restrictions.
- They may be able to extend the service online to foreign students.

Against:

- Unemployed parents may not have money for extra services such as this.
- Parents may not be able to pay their bills after their sons and daughters use the service.
- Students may no longer be able to afford university.
- If interest rates increase for students, fewer may go to university.
- Suyin and Mary have no experience of actually running a business, so may be ill-equipped to run one in a difficult economic climate.

**HL: apply Resources table 2 mark band descriptors.**

A justified conclusion is required.